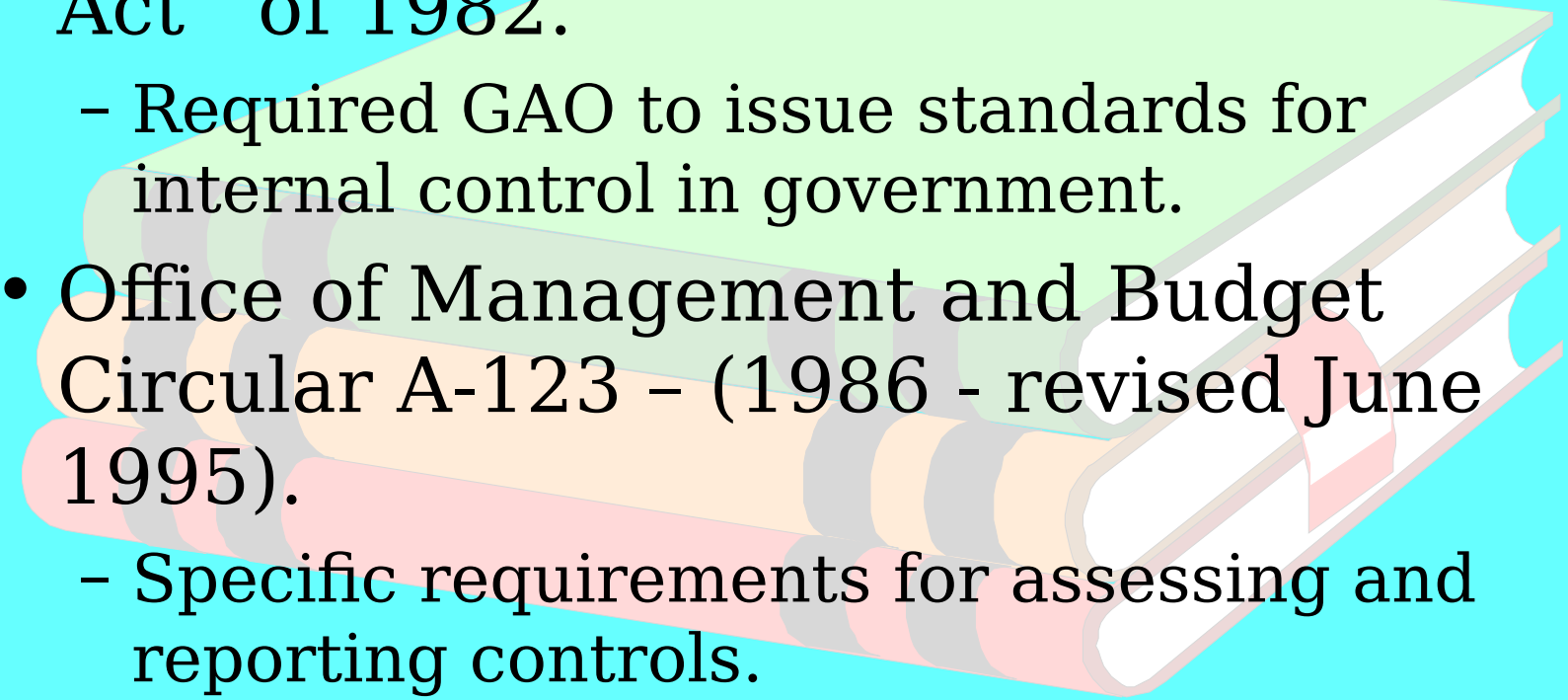
GAO Standards for Internal Controls in the Federal Government

Regulatory Guidance

- Federal Managers Financial Integrity Act of 1982.
  - Required GAO to issue standards for internal control in government.
- Office of Management and Budget Circular A-123 – (1986 - revised June 1995).
  - Specific requirements for assessing and reporting controls.



Regulatory Guidance Continued

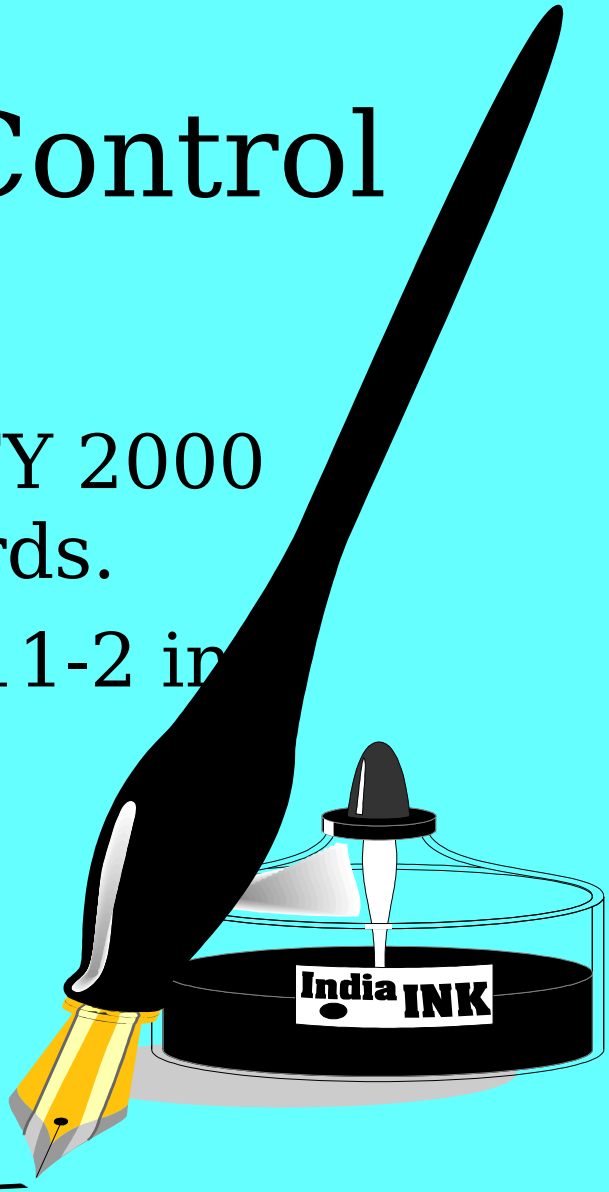
- The Government Performance and Results Act of 1993.
  - Agencies must clarify their missions,
  - Set strategic goals and annual performance goals,
  - Measure and report on performance towards their goals.

Regulatory Guidance Continued

- Chief Financial Officers Act of 1990.
  - Calls for financial management systems to comply with internal control standards.
- Federal Financial Management Improvement Act of 1996.
  - Identifies internal control as an integral part of improving financial management systems.

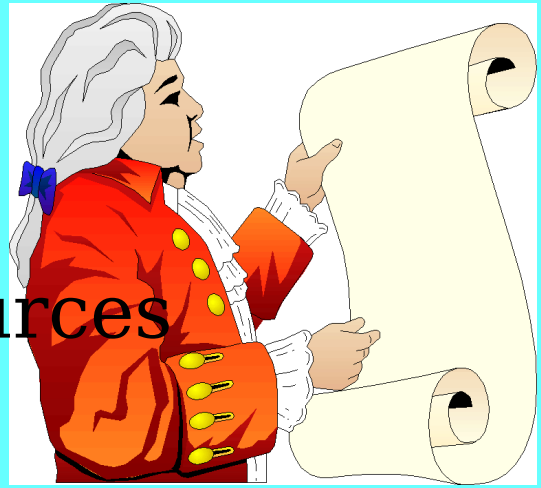
AR 11-2
Management Control

- Dated August 1994.
- Does NOT reflect the FY 2000 change in GAO standards.
- No plans to revise AR 11-2 in immediate future.



GAO Standards

- Internal controls:
  - First line of defense
  - Stewardship of resources



- Defines minimum level of quality acceptable for management control systems.

GAO Standards

- Defines internal controls as:
  - A continuous built-in component of operations.
  - Effected by people.
  - Provides reasonable assurance, not absolute assurance.

5 GAO Standards

- Control environment.
- Risk assessment.
- Control activities.
- Information/communications.
- Monitoring.

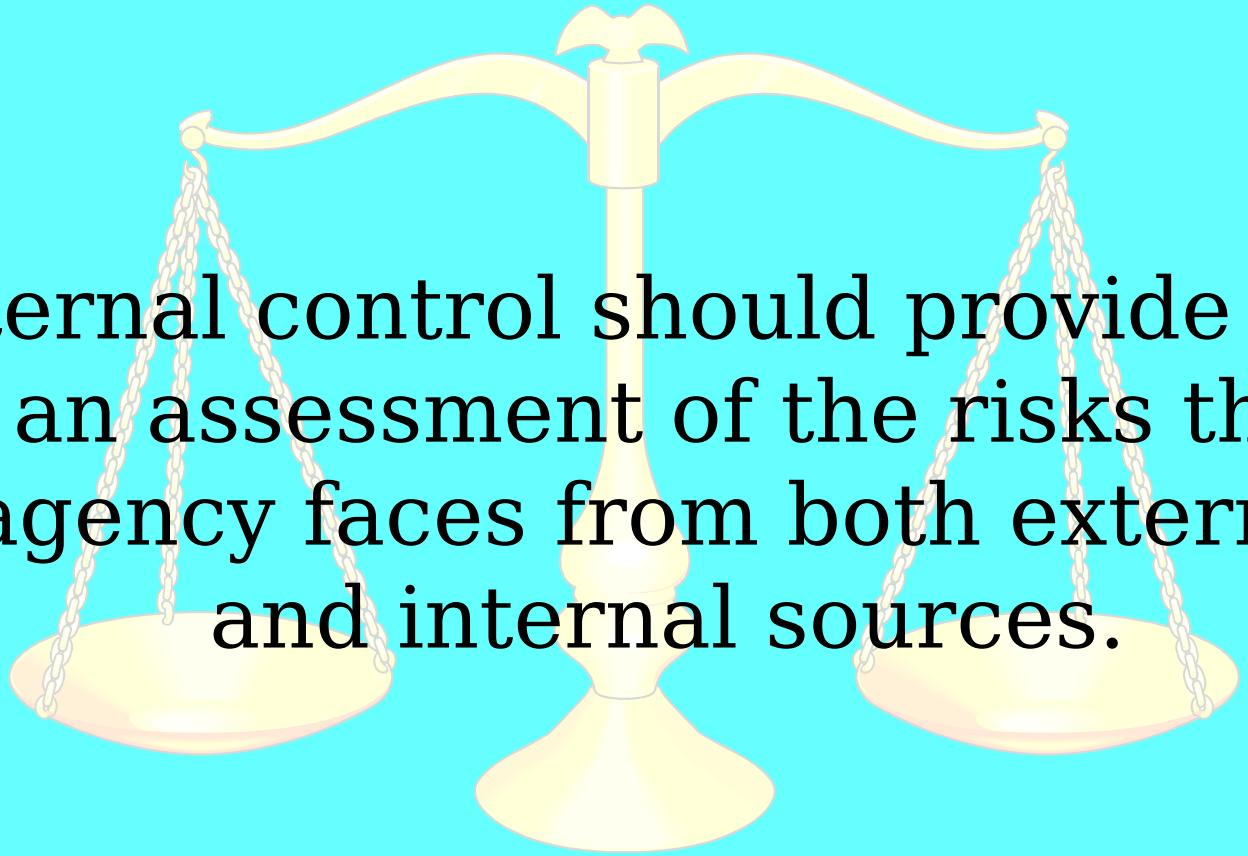
1. Control Environment

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

Key Factors

- Integrity and ethical values.
- Level of competence.
- Management philosophy and style.
- Structure.
- Delegation of authority.
- Human capital policies and practices.
- Relationship with Congress.

2. Risk Assessment



Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.

3. Control Activities

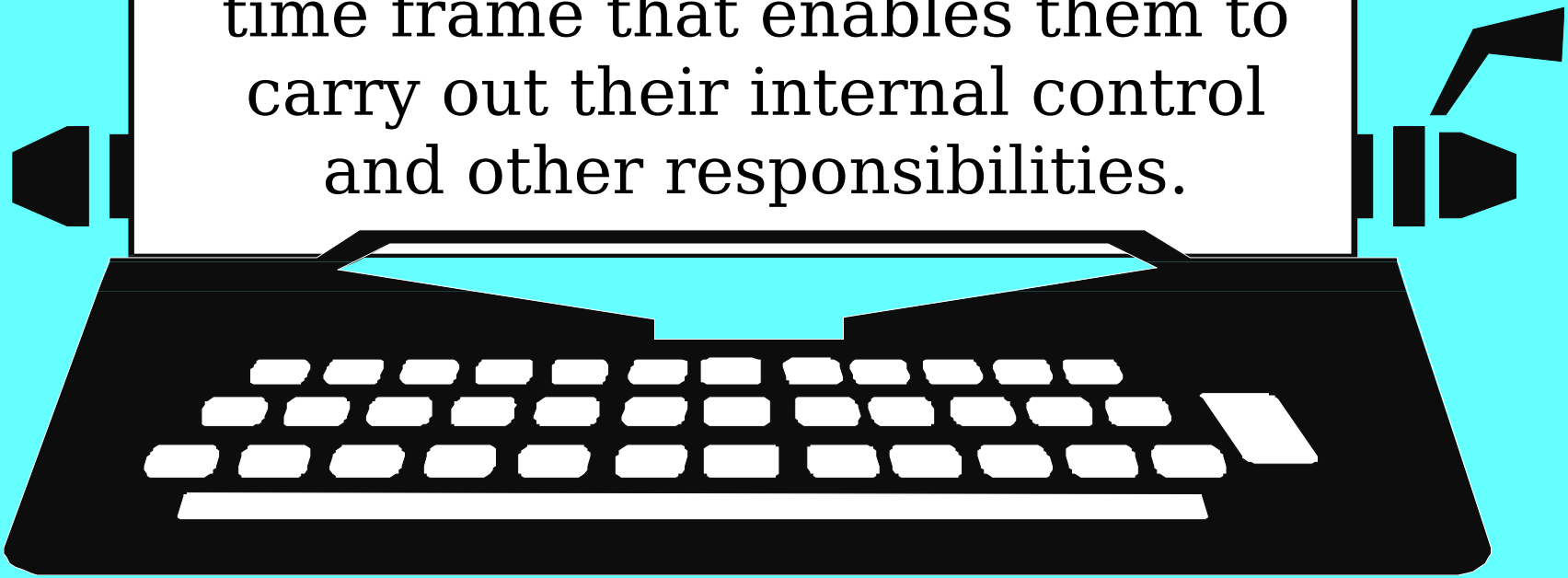
Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives.

Examples of Control Activities

- Top level reviews of actual performance.
- Reviews by management at the functional or activity level.
- Management of human capital.
- Controls over information processi
- Physical control over valuable asse
- Segregation of duties.

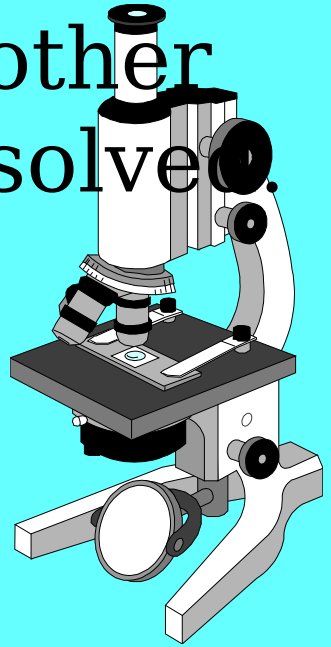
4. Information and Communication

Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

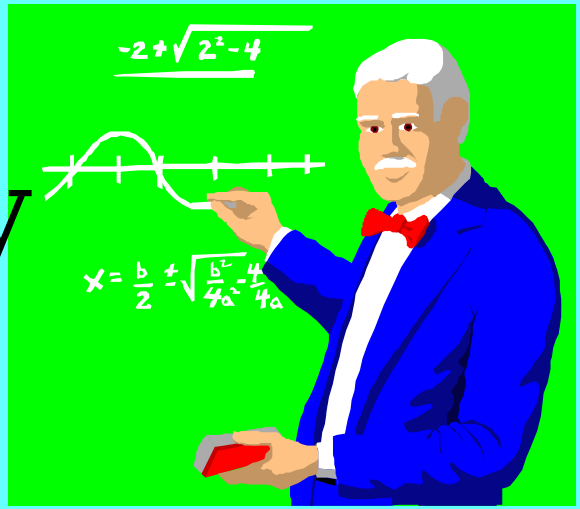


5. Monitoring

Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.



In Summary



- Effective FY 2000.
- Reduces standards from 12 to 5.
- Internal control = management control.
- Check out the GAO website at:
  - **http://www.gao.gov**. Look for publication GAO/AIMD-00-21.3.1. – Standards for Internal Control in the Federal Government.